Managing Fixed Price Development Programs

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Agenda

- Trend Change
- Critical Areas to Address when changing Contract Type on Development Contracts
  - Requirements Definition
  - Risk Reduction
  - Requirements Baselines
  - Metrics
- Contract Incentives
- Post Award Contract Management

Critical Areas to Address in Development efforts

- **Requirements Definition**
  - **Realistic Requirements**
  - **Risk Reduction**
  - **Baselines**
  - **Design to Cost/CAIV**
  - **Metrics**
  - **Budgeting**

Requirements Definition
Realistic Requirements

- **Realistic Requirements**
  - **Requirement process is even more critical in a Fixed Price environment**
  - **Unrealistic requirements can doom a program**
  - **All funds spent by the contractor reduce profit and/or come out of corporate funds**
  - **Trade off between “hard core” requirements and “nice to have” requirements**
  - **Must have realistic delivery schedules**

Requirements Definition
Risk Reduction

- **Risk reduction involving tradeoff studies (early on) to weed out unrealistic requirements:**
  - **Producability**
  - **Supportability**
  - **Beyond the “state of the art” items**
  - **Beyond production capabilities of industry**

Requirements Definition
Baselines

- **Baselines to which all parties have agreed!**
  - **User**
  - **Developer**
  - **Supporter**
- **Changes should be kept to a minimum and rarely occur after tradeoff studies have addressed the impacts**
- **Configuration Control Boards play a very critical role**

Contract Incentives

- **Positive or Negative Incentives or both?**
- **Increase of Decrease Profit based on degrees of Success (or lack there of)**
- **Objective or Subjective Incentives?**
- **Avoid to many incentives**

Remember:

You get what you incentivize, not what

Incentivize Higher Quality

- **Increased Fee**
- **Extended Contract Length**
- **Follow-on Contracts Awarded**
- **Accelerated Progress Payments (cash flow)**
- **Shared Savings**
- **Warranties**
- **Performance Based Payments**
- **Others?**

Post Award Contract Management

- **Effectively managing development contracts are highly dependent on limiting the amount of contract changes**
- **Contract Cost Incentives may make contractors less willing to accept non official or just helpful advice as any change may, and probably will, affect profit**
  - **Baselines become more entrenched**
  - **Discipline by both sides is necessary any changes should be**

Post Award Contract Management

- **Acquisition Program Transition Workshop is advisable after award to:**
  - **Create an environment of teamwork, collaboration, communication and trust**
  - **Conducted jointly with government/contractor teams**
  - **High energy effort over a couple of days**
  - **Align Government and contract startup activities**
  - **Focus on improved program**

Post Award Contract Management

- **Risk Assessment/Reduction should still be a primary consideration**
  - **Philosophy must be applied to ECPs or restructures**
- **Keep careful watch on the contracts incurrence of cost and the availability of funding, especially on any incremental funding**
  - **Contractor is only obligated to work as long as the Government provides**

Change Order
YAMAHA

Management
Minimize Change Activity

- As Dr. Carter stated "We on the Government side are assuming the risk of being able to articulate what it is exactly that we want and, then, not changing that notion."
- As children we were told to keep our hands to ourselves
  - As program mangers in fixed-price development, we should keep our hands off the contract.
    - Changes can be "profit in escrow"
    - If changes are needed, you will either

Management
Managing Requirements Changes

- **Configuration Control Boards are crucial:**
  - **Establish an effective CCB Team**
  - **Establish a firm CCB process that all understand**
  - **Don’t allow requirements creep**
  - **No changes without either identifying the funds or reduction in the baseline to pay for the change**

Post Award Contract Management

Claims

- **Under an FP arrangement - Contractors may be more willing to submit claims**
  - **Claims must be submitted within 6 years after the accrual of the claim**
  - **Contracting officer will review the claim and make a "Final Decision"**
  - **If contractors are not pleased with the final decision(s), under the Contract Disputes Act, they can appeal the decision via two routes**
    - **Administrative – Armed Services Board of Contract Appeals**